



1977 ANNUAL REPORT
GSW LIMITED/LIMITÉE

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	1977	1976 Restated
	(\$000's except per share data)	
SALES	\$51,236	\$48,347
NET INCOME BEFORE EXTRAORDINARY ITEMS	1,326	3,127
NET INCOME AFTER EXTRAORDINARY ITEMS	1,326	3,334
EARNINGS PER COMMON SHARE		
BEFORE EXTRAORDINARY ITEMS	.32	.75
AFTER EXTRAORDINARY ITEMS	.32	.80
WORKING CAPITAL (1976 after transfer of assets and liabilities to Canadian Appliance Manufacturing Company Limited)	18,214	9,736
CURRENT RATIO	2.8 to 1	1.5 to 1
SHAREHOLDERS' EQUITY	28,473	27,433



Annual Shareholders Meeting
 April 26, 1978
 Canada Trust Building
 110 Yonge St.
 Toronto, Ontario
 at 11:00 A.M.

Ce Rapport Annuel est disponible en français, sur demande. Adressez vos demandes à:

GSW LIMITÉE—GSW LIMITED

45 St. Clair Avenue West
 Toronto, Ontario, Canada
 M4V 1K9

Attention: Secrétaire Adjoint

REPORT OF THE BOARD OF DIRECTORS:

TO THE SHAREHOLDERS:

Net income in 1977 amounted to \$1,326,000 or 32¢ per share compared to net income before extraordinary items in 1976 of \$3,127,000 or 75¢ per share. Extraordinary items increased the 1976 net income to \$3,334,000 or 80¢ per share, while there were no extraordinary items in 1977.

As reported to you in our 1976 Annual Report, GSW and Canadian General Electric Company limited agreed to form Canadian Appliance Manufacturing Company Limited to assume the major appliance operations of the two shareholder companies on January 1, 1977. We will now reflect the resulting major change within GSW by reporting separately on GSW Operations and Canadian Appliance Manufacturing Company Operations.

GSW OPERATIONS

Sales in 1977 of \$51,236,000 were 6% higher than 1976 sales of \$48,347,000. The markets for GSW products were unchanged or lower in 1977, and the growth was achieved by increasing market share.

Net income for the year from GSW operations was \$1,125,000 and 27¢ per common share compared with \$1,099,000 and 26¢ per common share in 1976; however, 1977 operating income, before interest earned, was lower than in 1976. The extremely competitive market conditions brought margins under heavy pressure in 1977 although some progress was made in improving margins to a satisfactory level in the second half of the year.

Investment continued under good control in 1977. Inventories increased by \$1,947,000 to \$10,794,000 according to plan. The terms of transfer of appliance assets left GSW with a substantial on-going equity in the new company, and resulted in GSW having \$10 million more in cash than was needed to pay off its bank loans. After the investment required in GSW operations during 1977, there remained cash and investment in short-term securities of \$8,550,000 at year-end.

Your company continued to invest in processes and equipment which will reduce unit costs, and in tooling for new products. The operating divisions, and the Research and Development Centre at Sheridan Park, jointly designed and developed new products for successful introduction by every division.

CANADIAN APPLIANCE MANUFACTURING COMPANY OPERATIONS

Following its formation on January 1, 1977, the new appliance company acquired the major appliance operations of Westinghouse Canada Limited. In its initial operating year ending on December 31, 1977, Canadian Appliance Manufacturing Company had sales of \$266,956,000 and net income of \$662,000, in an extremely competitive market. Operating results reflect significant start-up, re-arrangement and rationalization costs. While disappointing, these results represent a significant achievement in a flat market.

The company successfully introduced the new Hotpoint line of appliances. The Moffat and McClary product lines were also updated. The company now markets under the GE, Hotpoint, Moffat and McClary labels. Dishwasher production for all brands was transferred to the Hamilton plant, while laundry production was consolidated in Montreal and room air-conditioners were concentrated in Orangeville.

GSW holds 50% of the voting stock and 40% of the equity in Canadian Appliance Manufacturing Company. GSW's share of its net income in 1977, less amortized formation costs, amounted to \$201,000 or 5¢ per share. In addition, GSW earned, from Canadian Appliance Manufacturing Company Notes, \$687,000 before taxes. In 1976, GSW earned net income from its appliance operations of \$2,028,000 or 49¢ per share.

CORPORATE DEVELOPMENTS

a) Organization and Personnel:

During 1977, your company changed its organization in recognition of its smaller business operations, and division General Managers now report to the President. Norman H. Smith who was formerly Group Vice-President, General Products, became Vice-President, Corporate. On March 15, 1977 Douglas G. Fixter, formerly Treasurer, was appointed Vice-President, Finance, and on January 25, 1978 D. Gordon Woodrow, General Manager of the Metalwares Division, was appointed a Vice-President.

b) Acquisitions and Divestitures:

Your company continues to evaluate acquisitions as a means to grow within our defined business areas; however no acquisitions were completed.

During 1977 your Board concluded that the Farm Equipment Division did not meet our criteria for return on investment and accordingly the business was sold. In addition, other investments which related to GSW appliance operations, were sold. The former Belwood freezer plant in Fergus was sold in 1977, and on February 6, 1978, agreement was reached for the resale to the City of London of 43.7 acres of vacant land. On February 17, 1978 we entered into an agreement for sale of the Commando Chrome division, to be completed on March 13, 1978. Proceeds from these sales approximate net book value. We believe these transactions will have a positive effect on GSW's future direction and earnings.

c) Dividend:

On February 22, 1978 your company declared its first dividend on common shares since 1961 by way of an extraordinary dividend in the amount of \$2.50 per common share. This special distribution returns to shareholders some of the earnings which have been retained in the business since 1961 to finance its growth. The Directors now look forward to establishing regular dividend payments out of future earnings.

d) Direction for the Future:

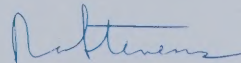
Your company is emerging from a period of adjustment during which the future direction has been established in its major business activities. We are optimistic that, despite an uncertain economy, 1978 will see significant improvement in operating results for both GSW operations and Canadian Appliance Manufacturing Company.

CONCLUSION

In 1977, GSW experienced a year of tremendous change against the backdrop of a soft economy. It has been a time of pause and redirection.

The Board wishes to thank all of the Company's employees for their efforts and contributions.

On behalf of the Board:



R. A. Stevens,
President



R. M. Barford,
Chairman

THE COMPANY'S DIVISIONS

PUMPS

During 1977 the four separate pump divisions of EPM, Barnes, Sta-Rite and GSW were consolidated into a single pump division. The main manufacturing facility at Fergus was enlarged and several automated machines were added to meet the division's total machining requirements. The Ajax facility was closed and the Winnipeg facility converted into a modern assembly plant capable of producing the various pump brands required by our Western customers.

Sales and Marketing functions of the four divisions were integrated and re-structured in order that the GSW Pump division could offer improved service to all channels of distribution throughout Canada. The integrated sales force was further strengthened with the addition

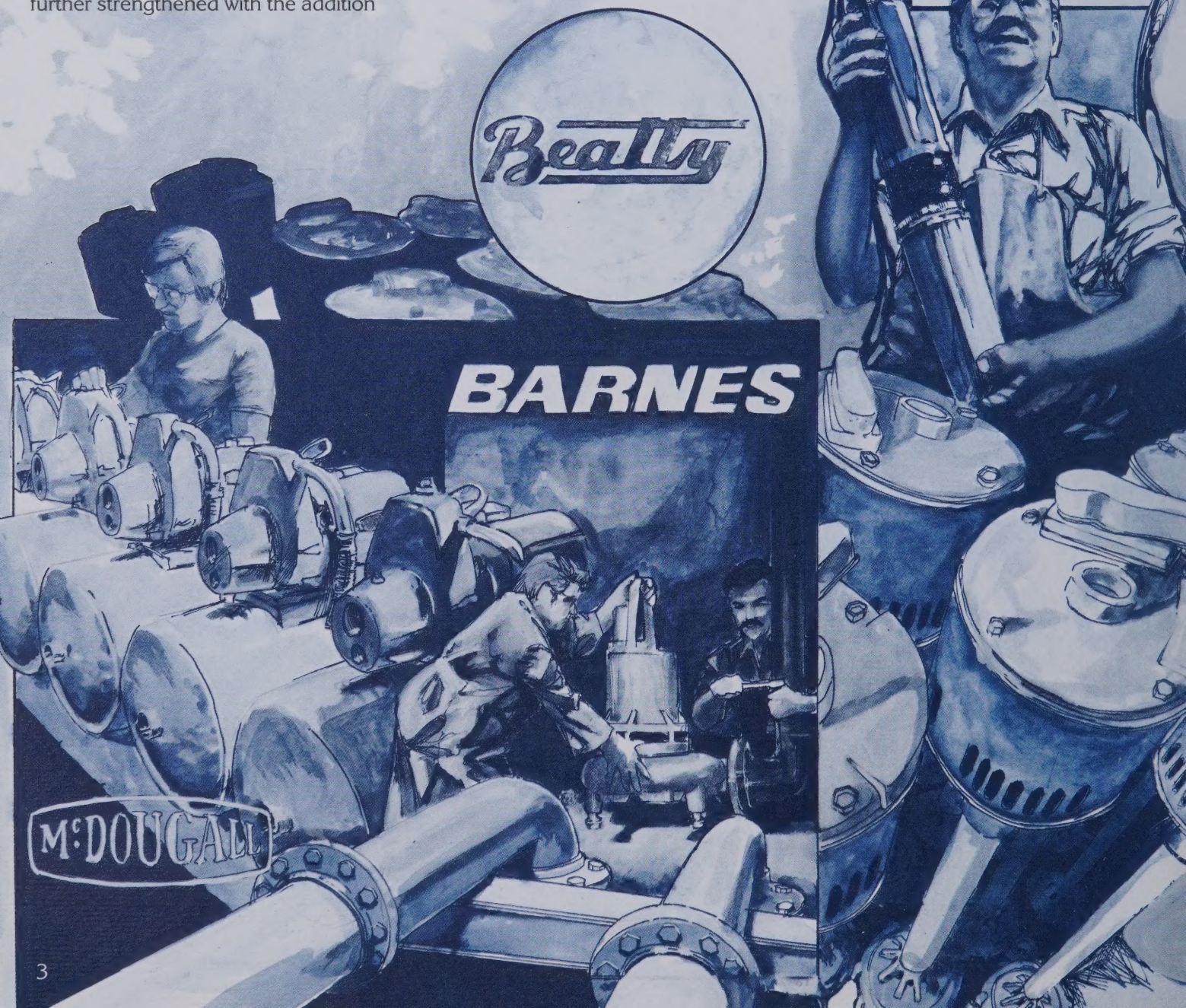
of new people, and new regional warehouses were opened in Langley, B.C., and Moncton, N.B.

Increased activities in product development resulted in the introduction in April of a new line of epoxy-lined water storage tanks, sold under GSW's Medalist brand and a new submersible sump pump will be introduced for the 1978 season.

Sales in 1977 remained strong in all five brands (Beatty, McDougall, Sta-rite, Barnes and EPM), and the increased market share obtained in 1977 reflects both our aggressive sales strategies and continued customer satisfaction with our high quality products. Export opportunities were pursued throughout

the year and orders were obtained from Africa, the Middle East and Europe.

The Pump division is now positioned as the leading supplier of domestic pumps for dealers, wholesalers and merchandisers across Canada. In addition, the EPM brand of transfer pumps and the Barnes sewage pumps are important factors in GSW's growing participation in the industrial pump market segment.



The Plating division provides electroplating services to the construction and appliance industries. In 1977 these users operated at lower than expected levels.

New cost reduction and quality control programs were introduced during 1977 and pollution controls and safety conditions were further improved.

CORONET



Although the housewares industry was adversely affected by a sluggish economy in 1977, GSW succeeded in improving its share of the important market segments.

The stainless steel cookware line continued to grow with Coronet brand leading the way in consumer preference while offering retailers an excellent margin. During the year, the division also successfully introduced a highly styled super weight stainless steel cookware line branded Coronet Ultra directed toward the growing number of consumers wishing to make a lifetime purchase.

The devaluation of the Canadian dollar marginally affected the sale of imported goods but these GSW lines are strongly entrenched in the marketplace and made a significant contribution to sales.

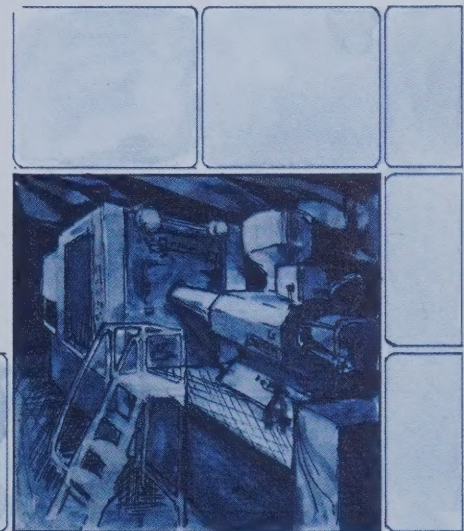
The pantryware business was soft in 1977 resulting in a highly competitive market but GSW responded by improving the quality and the styling of its product line. As a result, the sale of the new Compak waste cans and dispensers, for example, grew substantially.

Internally at Housewares, improvements were introduced in customer order service, data processing and manufacturing control systems and in general, despite the economic uncertainty, the division enters 1978 with an optimistic outlook.

Despite a declining market for custom moulded plastic components, the division maintained strong sales growth in 1977. An increased share of GSW's plastic component requirements was produced for cookware, wringer washers, pumps and water heaters. We also expanded our production for the appliance, automotive battery, and electrical equipment markets.

Several organizational changes were effected in the fourth quarter to strengthen the manufacturing and marketing functions. Production efficiency was improved by the establishment of a captive maintenance department.

Cost containment and value improvement are principal objectives for 1978 to enhance our competitive position.



Compak

In 1977 the Industrial division significantly increased its sales of wringer washing machines and components. Market share and unit shipments increased slightly in Canada while export sales were up substantially over 1976. South America and the Middle East were the major areas for the shipment of wringer washers, kits for assembly of wringer washers, and wringers and wringer heads. We anticipate further increases in export sales during 1978, with the domestic market holding steady.

The division continued to manufacture a top quality product and the excellent performance of the wringer washing machines in the field maintained the trend of reduced service calls during 1977. Increased production schedules were met without major capital expenditures. New domestic and export packing innovations introduced in 1977 reflect the target of achieving on-going cost reductions which enable GSW to retain its competitive position in world markets.

Non-residential and institutional construction markets continued soft in 1977 resulting in a reduced demand for both lockers and toilet partitions. This condition, combined with excess industry capacity, created an extremely competitive market.

The new flush door locker has received good acceptance from architects and customers. In addition, the Pre-Pak locker introduced in the fourth quarter of 1977, incorporating a new packaging and marketing concept, will be merchandised through new channels of distribution for home assembly.

During 1977, major strides were made in cost reduction programs in both product lines. The gains came primarily from investment in tooling and capital equipment that provided reductions in both material and labour cost.

In 1978, a new multi-stage washing machine will be installed for preparation of metal surfaces prior to the painting process. This will provide significant labour savings, and at the same time, insure a consistently high quality paint finish.

The accomplishments and improvements of 1977 place the division in a strong position to meet the challenge of 1978.

The Metalwares division experienced good sales growth in the hardware and building supply channels in 1977. A complete change in the stove pipe line to a higher quality, painted black, heat resistant finish was accepted enthusiastically by the market. The introduction of a simple soffit system for the home improvement segment met with good acceptance, and addition of a new hidden hanger system successfully completed the metal raingoods program.

During 1977 we were also successful in obtaining exclusive rights to a top quality U.K. vinyl rainware product which meets our standards and is considered superior to any now on the market. This new GSW Snap-Seal vinyl raingoods line has been added for 1978 to satisfy growing consumer acceptance of this concept, and the preliminary introduction to major customers has met with excellent response.

In 1978 we will continue our program of innovative product improvement while working to improve customer service. Renewed emphasis will be placed on working with our customers on product programs to help them improve profitability.



WATER HEATERS

The Water Heater division achieved continued growth in sales and in the volume of units shipped to all regions of the country during 1977 in a market characterized by aggressive price competition.

In the manufacturing operations, a secondary tank fabricating line was added during the year to upgrade the production of pump tanks, and equipment was added for the manufacture of a new line of epoxy-coated pump tanks.

Organization changes were implemented late in the year to add strength to the manufacturing team and, in addition, the sales force was increased to provide improved customer service in Western Canada and the Maritime provinces.

The division's engineering and management personnel actively participated in several industry programs related to metric conversion, consumer quality

satisfaction and energy conservation throughout the year. All forty and sixty gallon electric water heaters now produced by the division are approved and labelled to the energy conservation specifications outlined in the Canadian Standards Association Standards C191. A further industry program to develop energy efficiency standards for gas water heaters is presently under way and will likely be implemented within the next year.

Quality standards for tank lining developed in 1976 were implemented successfully in 1977 along with an improved quality assurance program.

In 1978, the division will strive for continued growth in sales through improvements in distribution, communications, and customer service.



RESEARCH AND DEVELOPMENT

The likelihood of future energy shortages and the certainty of higher energy costs is influencing much of the R&D work in Canada today.

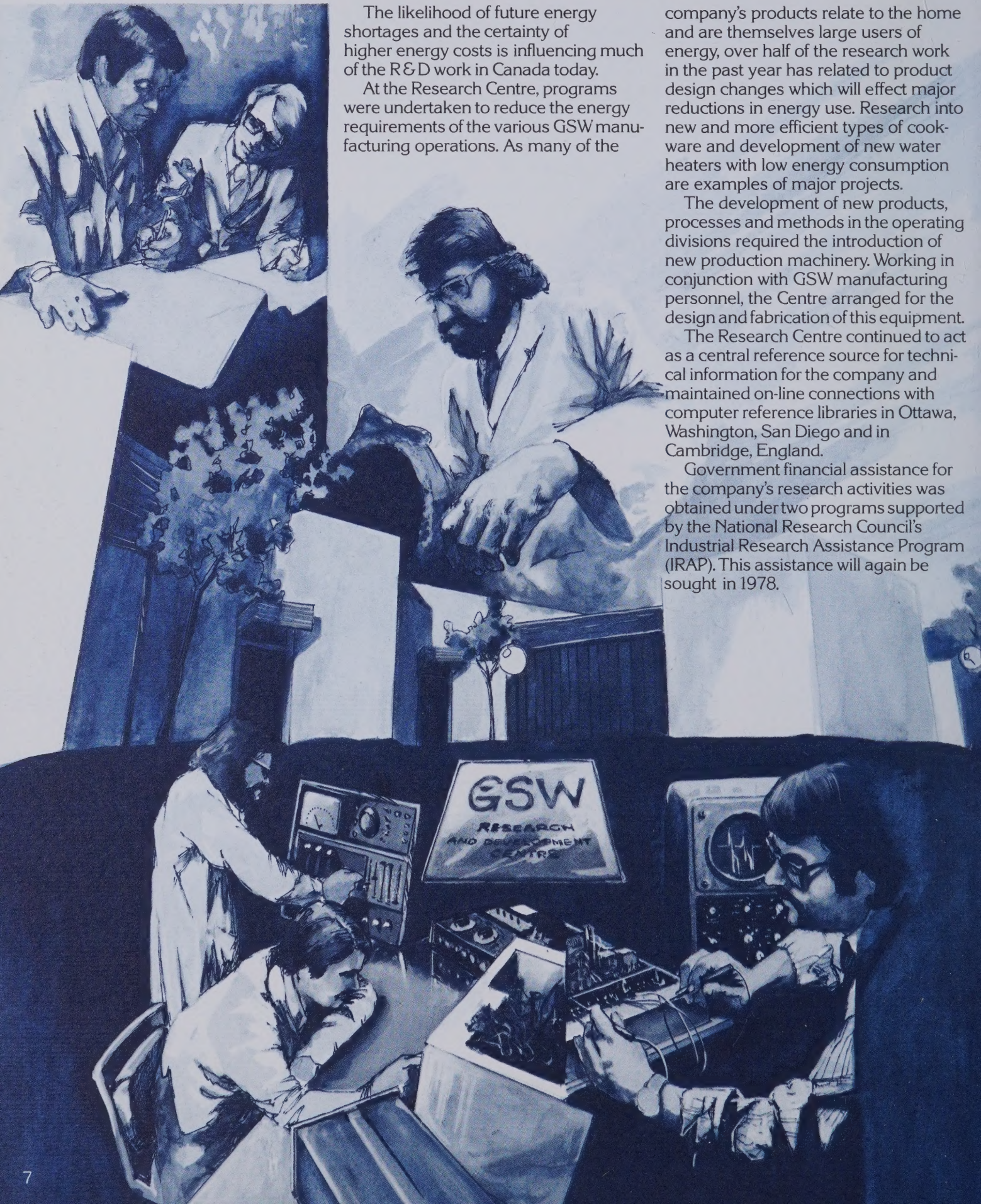
At the Research Centre, programs were undertaken to reduce the energy requirements of the various GSW manufacturing operations. As many of the

company's products relate to the home and are themselves large users of energy, over half of the research work in the past year has related to product design changes which will effect major reductions in energy use. Research into new and more efficient types of cookware and development of new water heaters with low energy consumption are examples of major projects.

The development of new products, processes and methods in the operating divisions required the introduction of new production machinery. Working in conjunction with GSW manufacturing personnel, the Centre arranged for the design and fabrication of this equipment.

The Research Centre continued to act as a central reference source for technical information for the company and maintained on-line connections with computer reference libraries in Ottawa, Washington, San Diego and in Cambridge, England.

Government financial assistance for the company's research activities was obtained under two programs supported by the National Research Council's Industrial Research Assistance Program (IRAP). This assistance will again be sought in 1978.



**CONSOLIDATED STATEMENT OF INCOME, AND CONSOLIDATED
STATEMENTS OF RETAINED EARNINGS AND CONTRIBUTED SURPLUS
GSW LIMITED—GSW LIMITÉE**

Year ended December 31, 1977

(with comparative figures for 1976)

(\$000's)

Consolidated Statement of Income	1977	1976
		Restated (note 2)
Sales	\$51,236	\$48,347
Income before undernoted items	1,643	2,904
Interest income on notes of Canadian Appliance Manufacturing Company Limited including interest on working capital advances	687	—
Interest income other	211	—
Interest on long-term debt	(30)	(63)
Interest on other loans	(162)	(217)
Depreciation	(736)	(600)
	(30)	(880)
Operating income before income taxes	1,613	2,024
Income taxes	488	925
Income before equity interest in Canadian Appliance Manufacturing Company Limited and extraordinary items	1,125	1,099
Share of net income in Canadian Appliance Manufacturing Company Limited (note 3)	201	—
Net income from appliance operations (note 2)	—	2,028
Income before extraordinary items	1,326	3,127
Extraordinary items:		
Gain on repayment of long-term debt	—	445
Costs of plant closing less related income taxes	—	(238)
	—	207
Net income for the year	\$1,326	\$ 3,334
Earnings per common share:		
Income before extraordinary items	\$ 0.32	\$ 0.75
Extraordinary items	—	0.05
Net income for the year	\$ 0.32	\$ 0.80

**Consolidated Statements of Retained Earnings
and Contributed Surplus**

RETAINED EARNINGS	1977	1976
Balance, beginning of year	\$23,581	\$20,292
Add net income for the year	1,326	3,334
	24,907	23,626
Deduct dividends on preferred shares	31	45
Balance, end of year	\$24,876	\$23,581
CONTRIBUTED SURPLUS		
Balance, beginning of year	\$ 446	\$ 417
Add gain on purchase of preferred shares	4	29
Balance, end of year	\$ 450	\$ 446

(See accompanying notes)

CONSOLIDATED BALANCE SHEET**GSW LIMITED—GSW LIMITÉE**

(Incorporated under the laws of Canada)

December 31, 1977

(with comparative figures for 1976)

(\$000's)

ASSETS	1977	1976
		Restated (note 2)
Current:		
Cash and short term deposits	\$ 8,550	\$ 1,010
Accounts receivable	6,985	18,780
Inventories—		
Finished goods	4,348	3,844
Raw materials and work in process	6,446	5,003
Prepaid income taxes	735	591
Prepaid expenses	222	246
Current portion of notes receivable from Canadian Appliance Manufacturing Company Limited	1,012	—
	<u>28,298</u>	<u>29,474</u>
Inventories and prepaid expenses transferred to Canadian Appliance Manufacturing Company Limited	<u>—</u>	<u>20,540</u>
Total current assets	<u>28,298</u>	<u>50,014</u>
Investment in Canadian Appliance Manufacturing Company Limited (notes 2 and 3):		
Shares	5,377	246
Notes receivable	3,035	—
Total investments	<u>8,412</u>	<u>246</u>
Fixed:		
Land, buildngs and equipment	11,374	11,550
Less accumulated depreciation	<u>7,279</u>	<u>6,958</u>
	4,095	4,592
Net book value of fixed assets transferred to Canadian Appliance Manufacturing Company Limited	<u>—</u>	<u>4,930</u>
Total fixed assets	<u>4,095</u>	<u>9,522</u>
Total assets	<u>\$40,805</u>	<u>\$59,782</u>

On behalf of the Board:

R. A. Stevens, Director

R. M. Barford, Director

LIABILITIES	1977	1976
		Restated (note 2)
Current:		
Bank indebtedness	\$ —	\$ 9,111
Accounts payable and accrued liabilities	9,813	9,343
Income and other taxes payable	215	975
Dividends payable	8	11
Debt due within one year	48	298
	10,084	19,738
Accounts payable and sales taxes payable transferred to Canadian Appliance Manufacturing Company Limited	—	10,422
Total current liabilities	10,084	30,160
Provision for warranties, non-current portion	1,711	1,604
Long-term debt (note 4)	537	585
Total liabilities	12,332	32,349
Shareholders' equity:		
Share capital (note 5)—		
5% cumulative preferred shares of \$100 each, redeemable at \$105		
Authorized and issued less redeemed:		
6,103 shares (1976—8,691)	610	869
Common shares without par value:		
	Authorized	Issued
Class A	1,357,969	1,313,321
Class B	20,000,000	2,788,735
Class C	1,360,901	
Class D	21,360,901	
	44,079,771	4,102,056
Contributed surplus	450	446
Retained earnings	24,876	23,581
Total shareholders' equity	28,473	27,433
Total liabilities and shareholders' equity	\$40,805	\$59,782

AUDITORS' REPORT

To the Shareholders of
GSW Limited—GSW Limitée:

We have examined the consolidated balance sheet of GSW Limited—GSW Limitée as at December 31, 1977 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon and Co.,

Toronto, Canada,
February 22, 1978.

Chartered Accountants.

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION **GSW LIMITED—GSW LIMITÉE**

Year ended December 31, 1977

(with comparative figures for 1976)

(000's)

	<u>1977</u>	<u>1976</u>
Funds were derived from:		
Operations—		
Income before equity interest in Canadian		
Appliance Manufacturing Company Limited		
and extraordinary items	\$1,125	\$3,127
Add charges not requiring funds:		
Depreciation	736	1,303
Reduction in prepaid income taxes, non-current...	—	143
Provision for warranties, non-current	107	15
Total funds from operations	1,968	4,588
Reduction of notes receivable from Canadian		
Appliance Manufacturing Company Limited	2,024	—
Sale of fixed assets	191	—
Issue of common shares	—	126
Total funds provided	4,183	4,714
Funds were applied to:		
Notes receivable from Canadian Appliance		
Manufacturing Company Limited on transfer of		
net current assets	5,059	—
Reduction of long-term debt	48	1,984
Purchase of fixed assets	430	1,694
Redemption of preferred shares	255	617
Dividends on preferred shares	31	45
Acquisition of subsidiary company	—	835
Plant closing costs	—	238
Acquisition costs	—	246
Total funds applied	5,823	5,659
Decrease in working capital for the year	<u>\$1,640</u>	<u>\$ 945</u>

(See accompanying notes)

Year ended December 31, 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements:

a) Inventory valuation

Inventories are valued at the lower of cost and market. Cost is determined principally on a first-in, first-out basis. Cost includes material, labour and variable and fixed manufacturing overhead costs. No fixed manufacturing overhead costs are included in inventory valuation on quantities judged to be in excess of normal minimum inventory levels. Market value is net realizable value for finished goods and work in process, and replacement cost for raw materials.

b) Fixed assets and depreciation

Fixed assets are stated at acquisition cost, including transportation and installation charges. Generally, depreciation is determined using the declining balance method. This results in accumulated depreciation of approximately two-thirds of the cost of an asset during the first half of its estimated useful life.

c) Product warranty costs

Anticipated costs related to product warranty are recorded in the year in which the product is sold.

d) Pension plan costs (see also note 6)

Costs relating to improvements in pension benefits granted by the company for employment in prior periods are amortized over fifteen years from the date such costs are established.

e) Income taxes

Income taxes are provided for on reported income in accordance with the tax allocation method of accounting. Under this method prepaid or deferred income taxes are recorded in respect of timing differences between reported income and current taxable income.

These timing differences relate principally to warranty costs which are deductible when paid rather than when accrued and differences between depreciation claimed for income tax purposes and that recorded in the accounts.

f) Investment in Canadian Appliance Manufacturing Company Limited

The investment in Canadian Appliance Manufacturing Company Limited is reflected on the equity method by which 40% of its net income is included in the income of the company.

g) Other significant policies

Continuing research and development costs are recognized as expenses when incurred. Engineering, tooling and patent costs are treated in the same manner.

2. FORMATION OF CANADIAN APPLIANCE MANUFACTURING COMPANY LIMITED

Effective January 1, 1977 the company and Canadian General Electric Company Limited formed Canadian Appliance Manufacturing Company Limited, to operate their combined major appliance operations. In addition, Canadian Appliance Manufacturing Company Limited acquired the major appliance business of Westinghouse Canada Limited during 1977. Details of the assets and liabilities transferred by GSW at net book values are reflected in the 1976 comparative figures. The consideration received was as follows:

	(\$000's)
Cash	\$ 5,059
Notes bearing interest at prime bank rate and repayable in 5 equal annual installments 1977 to 1981	5,059
Shares carrying 50% of the total votes and 40% of the equity participation	4,930
	<u>\$15,048</u>

The comparative figures for 1976 have been restated to eliminate sales (\$93 million) and costs of the appliance operations and to reflect the details of assets and liabilities transferred to Canadian Appliance Manufacturing Company Limited effective January 1, 1977, and to show only the net income from those operations.

3. CANADIAN APPLIANCE MANUFACTURING COMPANY LIMITED

Set forth below is a summary of the financial position of Canadian Appliance Manufacturing Company Limited as at December 31, 1977, and a summary of the results of its operations for the year then ended.

A. Summary of Financial Position, December 31, 1977	(\$000's)
Cash and receivables	\$ 42,867
Inventories	60,557
Other current assets	2,193
Total current assets	<u>105,617</u>
Short term bank borrowings	23,846
Other current liabilities	45,178
Total current liabilities	<u>69,024</u>
Working capital	36,593
Net fixed assets	<u>24,749</u>
	61,342

Notes payable to shareholders	
GSW (net of current portion reflected above)	3,035
CGE	8,982
Term bank borrowings	30,000
Other non current liabilities	<u>6,374</u>
	48,391
Net assets	\$ 12,951
GSW interest therein	\$ 5,180
Unamortized acquisition costs	<u>197</u>
Equity interest in Canadian Appliance Manufacturing Company Limited	<u>\$ 5,377</u>

B. Summary of Results of Operations, Year ended December 31, 1977

Sales revenue	\$266,956
Income before the under-noted items	\$ 8,576
Interest on bank borrowings	3,876
Interest on notes	1,451
Other interest—net	452
Depreciation and amortization	<u>2,593</u>
	8,372
Income before income taxes	204
Income taxes	<u>(458)</u>
Net income for the year	\$ 662
GSW interest in net income for the year	\$ 265
Less amortization of GSW acquisition costs	<u>64</u>
Equity interest included in GSW statement of income	<u>\$ 201</u>

In preparing its financial statements, Canadian Appliance Manufacturing Company Limited has recognized, as part of the consideration given for the purchase of the assets of the major appliance operations of Westinghouse

Canada Limited, an obligation for the unfunded vested past service pension benefits related to the employees who were formerly employees of Westinghouse Canada Limited. It is the belief of GSW that this commitment should not have been treated as a liability on acquisition nor reflected as an increase in the valuation of the fixed assets; rather it should have been recognized as an additional employee cost in the current and future years when the funding obligation is met. However, GSW has agreed to the basis on which Canadian Appliance Manufacturing Company Limited financial statements have been prepared since the effects of the difference in treatment referred to above are not material in GSW's accounts.

4. LONG-TERM DEBT

The long-term debt consists of:

	<u>1977</u>	<u>1976</u>
	(\$000's)	
10½% agreement of purchase and sale, due 1985	\$357	\$402
10¾% mortgage payable due 1999	<u>228</u>	<u>231</u>
	585	633
Less amounts due within one year	<u>48</u>	<u>48</u>
	<u>\$537</u>	<u>\$585</u>

The 10½% agreement of purchase and sale is payable in annual principal installments of \$45,000. The 10¾% mortgage is repayable in equal annual installments of principal and interest of \$27,000.

5. SHARE CAPITAL

During the year, supplementary letters patent were issued to increase the authorized capital of the company by the creation of 1,360,901 Class "C" and 21,360,901 Class "D" common shares without nominal or par value.

All classes of common shares are equal in every respect except that the Class "A" and Class "C" shares have 100 votes per share and the Class "B" and Class "D" shares have one vote per share. A holder of Class "A" or Class "C" shares, at any time may convert them into an equal number of any other class of common shares. A holder of Class "B" or Class "D" shares, at any time may convert from one to the other. During the year, 2,932 Class "A" shares were converted into Class "B" shares.

All common shares participate equally, share for share, as to dividends. With respect to Class "C" and Class "D" shares, tax deferred dividends may be paid out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand, as defined in the Income Tax Act (Canada). In the event that such dividends are paid out of tax-paid undistributed surplus, the Class "A" and Class "B" shares shall receive a dividend equal to the sum of the amount of the cash dividend paid on the Class "C" and Class "D" shares and the amount of the tax that the company paid to create tax-paid undistributed surplus to pay such dividend.

In accordance with the new Income Tax Act amendments, tax-deferred dividends may not be paid after December 31, 1978.

Under the terms and conditions relating to the 5% cumulative preferred shares, a sinking fund is to be set aside by July 1st each year for the purchase or redemption of these shares, the amount being determined in accordance with a formula based on the consolidated net income for the previous year. In 1977, 2,588 shares were purchased for cancellation. As a result of preferred share purchases made during 1977, no preferred shares need be called for redemption in 1978.

6. PENSION PLANS

There are a number of pension plans for present and retired employees of the company. Based upon the most recent actuarial valuations the total estimated unfunded obligations of these plans as at December 31, 1977 amounts to approximately \$900,000.

7. REMUNERATION OF DIRECTORS AND OFFICERS

The company has nine directors. The aggregate remuneration paid to directors as directors was \$44,000. The company has ten officers of whom three are also directors. The aggregate remuneration paid to officers as officers was \$671,000.

8. THE ANTI-INFLATION PROGRAM

Under the federal government's Anti-Inflation Program the company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends.

9. SUBSEQUENT EVENT

On February 22, 1978, The Board of Directors of the company declared an extraordinary dividend on all common shares outstanding of \$2.50 a share. This dividend is payable on April 20, 1978 to the holders of all classes of common shares of record at the close of business on the 29th day of March 1978. The dividends on Class "C" and Class "D" shares will be paid out of 1971 capital surplus on hand.

BOARD OF DIRECTORS

R.M. Barford
P. de Gaspé Beaubien
W.J. Bushnell
H.B. Davis
G.M. Farquharson, Q.C.
D.S.R. Leighton
J.K. Loudon
R.A. Stevens
Ben Wosk

DIRECTOR EMERITUS

Miss M.P. Hyndman, Q.C.

OFFICERS

R.M. Barford,
Chairman
R.A. Stevens,
President
G.S. Dickson,
Vice-President, Corporate
D.G. Fixter,
Vice-President, Finance
F.O. Price,
Vice-President, Research
and Development
N.H. Smith,
Vice-President, Corporate
N. St-Jean,
Vice-President
D.G. Woodrow,
Vice-President
G.M. Farquharson, Q.C.,
Secretary
W.D. Campbell,
Assistant Treasurer
D.A. Barnes,
Assistant Secretary

SHARE TRANSFER AGENTS

Preferred Shares, The Canada
Trust Company
Common Shares, National Trust
Company Limited

BANK

The Bank of Nova Scotia

AUDIT

Clarkson, Gordon & Co.

HOUSEWARES DIVISION

N. St-Jean
Vice-President and General Manager
Cookware and Pantryware
19,000 Trans Canada Highway
Baie d'Urfé, Que. H9X 3N8

WATER HEATER DIVISION

W.R. Arbuthnot
General Manager
Electric and Gas Water Heaters,
Glass Lined Range Boilers and
Storage Vessels
599 Hill Street West
Fergus, Ontario
N1M 2X1

INDUSTRIAL DIVISION

G.S. Dickson
Vice-President and General Manager
Wringer Washers,
Wringers and Components
599 Hill Street West
Fergus, Ontario
N1M 2X1

PUMP DIVISION

M.O. Hickman
General Manager
Beatty, McDougall, Sta-Rite
Domestic Water Pumps,
Tanks and Accessories,
Swimming Pool Equipment,
Barnes Sewage and General
Purpose Pumps,
EPM Engine Driven and
Effluent Pumps
599 Hill Street West
Fergus, Ontario
N1M 2X1

METALWARES DIVISION

D.G. Woodrow
Vice-President and General Manager
Galvanized Ware, Dairy Pails,
Stove Pipe, Roof Drainage and
Waste Baskets
281 Birch Avenue
P.O. Box 526, Station "B"
Hamilton, Ontario
L8L 7X6

BUILDING PRODUCTS DIVISION

D.J. Temple
General Manager
Toilet Compartments,
Metal Lockers and Gym Boxes
2995 Page Street
P.O. Box 5273, Terminal "A"
London, Ontario
N6A 4L6

CENTRE MOULDED PLASTICS DIVISION

J.L. Fatum
General Manager
Custom Moulded Plastic Products
26 Lorena Street, P.O. Box 622
Barrie, Ontario
L4N 4P4

COMMANDO CHROME PLATING DIVISION

J. Kirkby
General Manager
Industrial Plating Services
109 Falcon Street
London, Ontario
N5W 4Z2

RESEARCH AND DEVELOPMENT CENTER

F.O. Price
Vice-President
2275 Speakman Drive
Sheridan Park,
Mississauga, Ontario
L5K 1B1

